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PASS WHITE HOUSE/SCHLESINGER AND FEA

E.O. 11652: N/A
TAGS: ENRG, SENV, PGOV, CA
SUBJ: ENERGY: VANCOUVER PERSPECTIVE ON KITIMAT PROJECT

REF: OTTAWA 1305

1. SUMMARY: THIS CABLE REPORTS OUTLOOK FOR KITIMAT PROJECT AS SEEN BY CONGEN VANCOUVER. BY 1985 BRITISH COLUMBIA OIL DEMAND WILL REACH 221,000 BARRELS PER DAY (B/D). ONLY 19,000 B/D OF THIS DEMAND CAN BE MET FROM B.C. SOURCES AND ALBERTA SUPPLIES LIKELY TO BE IN-SUFFICIENT TO MAKE UP DIFFERENCE. PROVINCE THEREFORE MUST FACE NEED TO ESTABLISH DELIVERY SITES FOR OFFSHORE OIL. B.C. SOURCES SUGGEST OPTIONS ARE:

(A) TERMINAL AT PORT ANGELES FEEDING A NORTHERN TIER PIPELINE ACROSS U.S. AND MODIFICATION PERMITTING TRANS MOUNTAIN PIPELINE TO DELIVER TO B.C. REFINERIES,
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(B) TERMINAL IN VICINITY OF PUGET SOUND AND B.C. REFINERIES AND REVERSAL OF TRANS MOUNTAIN PIPELINE TO DELIVER TO B.C. AND NORTHERN TIER U.S. REFINERIES THROUGH EDMONTON AND (C) EXPANDED KITIMAT PROJECT MAKING THAT SITE MAJOR POINT OF ENTRY FOR ALL CRUDE REQUIREMENTS OF REGION. SO FAR, B.C. GOVERNMENT HAS EXPRESSED NO PREFERENCE. PREMIER BENNETT SEES NO BENEFIT TO B.C. IN

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KITIMAT PROPOSAL, BUT HIS GOVERNMENT MIGHT ULTIMATELY VIEW IT AS BEST ALTERNATIVE TO MORE TANKER TRAFFIC IN PUGET SOUND. B. C. GOVERNMENT MAY THUS "TILT" IN FAVOR OF KITIMAT BY DEFAULT. B. C. GOVERNMENT AND GOC WILL IN ANY CASE HAVE TO COPE WITH POTENT ENVIRONMENTALIST COALITION WHICH WILL OPPOSE KITIMAT, OR ANY OIL PORT PROPOSAL, AS WELL AS THE NDP WHICH FAVORS RAIL TRANSPORT OF ALASKAN OIL THROUGH B.C. TO U.S. END SUMMARY.
2. FOLLOWING PARAGRAPHS ARE REPORT BY CONSULATE GENERAL VANCOUVER WHICH GIVES BRITISH COLUMBIA PERSPECTIVE ON CURRENT STATUS OF KITIMAT PROJECT.

3. BRITISH COLUMBIA OIL DEMAND:

ACCORDING TO PUBLISHED EXCERPTS FROM A RECENTLY "LEAKED" CONFIDENTIAL REPORT OF THE B.C. ENERGY COMMISSION, OIL DEMAND IN BRITISH COLUMBIA IN 1976 WAS 155,000 B/D, OF WHICH 43,000 B/D WERE FROM B.C. PRODUCTION AND 112,000 B/D FROM ALBERTA. BY 1985, COMMISSION FORECASTS A DEMAND OF 221,000 B/D, OF WHICH ONLY 19,000 B/D WILL BE AVAILABLE FROM DECLINING B. C. PRODUCTION. CONSEQUENTLY, CRUDE OIL FROM OUT-OF-PROVINCE MUST MAKE UP THE SUB-STANTIALLY INCREASED SHORTFALL AND IT IS CLEARLY RECOGNIZED THAT ALBERTA OIL SUPPLY IS LIKELY TO BE INSUFFICIENT. IN THIS CASE, B.C. MUST PREPARE TO SWITCH TO OFFSHORE SOURCES AND TO ADDRESS PROBLEM OF DELIVERY SITES.

4. HOW MANY TERMINALS?:
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INCREASINGLY, B.C. GOVERNMENT UNDERSTANDS THAT THERE IS NO WAY TO GET FOREIGN OIL WITHOUT ENVIRONMENTAL RISKS, THAT PROVINCE'S OIL SUPPLY PROBLEMS ARE INEXTRICABLY LINKED WITH THOSE OF U.S., AND THAT ISSUE IS NOT WHETHER THERE SHOULD BE AN OIL PORT AND PIPELINE, BUT RATHER HOW MANY OIL DELIVERY SYSTEMS ON THE WEST COAST ARE NEEDED TO SERVE NEEDS OF B.C., PUGET SOUND REFINERIES AND U.S. MIDWEST. ANDREW THOMPSON, HIGHLY RESPECTED FORMER CHAIRMAN OF B.C. ENERGY COMMISSION, HAS PUBLICLY STATED THAT DECISION TO BUILD AN OIL PORT AND PIPELINE WAS IRREVOCABLY MADE WHEN CANADIAN POLICY BEGAN TO CURTAIL DELIVERIES OF ALBERTA CRUDE OIL TO U.S. IN 1975. THAT DECISION MEANT THAT PUGET SOUND REFINERIES HAD TO RECEIVE MAJOR OFFSHORE SHIPMENTS OF CRUDE OIL TO REPLACE ALBERTA CRUDE AND THAT ANY TERMINAL ESTABLISHED FOR THESE REFINERIES WOULD BE AN OBVIOUS CANDIDATE TO RECEIVE ALASKAN CRUDE FOR DELIVERY TO U.S. MIDWEST. ACCORDING TO THOMPSON, THE "GREATEST DANGER" B.C. FACES

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IS BEING CONFRONTED BY TWO OR MORE MAJOR OFFSHORE
TERMINALS AND PIPELINE SYSTEMS WHEN ONE WOULD SUFFICE.
A MAJOR CRITICISM OF THE CURRENT KITIMAT PROJECT IS THAT
IT PROPOSES TO SERVE ONLY NEEDS OF THE U.S. MIDWEST AND
CONTAINS NO PLANS TO SERVE REFINING NEEDS OF EITHER
BRITISH COLUMBIA OR WASHINGTON STATE.
5. THE OPTIONS:
PROFESSOR THOMPSON AND OTHERS SUGGEST THREE POSSIBLE SOULTIONS
TO MEET SUPPLY REQUIREMENTS AND REDUCE OIL SPILL
HAZARDS BY CONCENTRATING SPILL RISKS TO SINGLE PORT
RATHER THAN SPLITTING THEM BETWEEN TWO OR MORE PORTS:
(A) PLACE OIL TERMINAL AT PORT ANGELES AND CONSTRUCT A
NORTHERN TIER PIPELINE ACROSS TO THE U.S. MIDWEST, WITH

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A SPUR TO THE CHERRY POINT AND ANACORTES REFINERIES.
EXISTING TRANS MOUNTAIN PIPELINE FACILITIES COULD THEN
BE USED TO PROVIDE DELIVERIES TO B.C. REFINERIES FROM
EITHER ALBERTA OR OFFSHORE.

(B) LOCATE A NEW OIL TERMINAL IN THE VICINITY OF PUGET
SOUND AND B.C.REFINERIES AND FROM THERE REVERSE, AND
EVENTUALLY AUGMENT, THE EXISTING TRANS MOUNTAIN PIPELINE
TO CARRY CRUDE BACK TO ALBERTA FOR SHIPMENT TO U.S.
MIDWEST.
(C) EXPAND CONCEPT OF KITIMAT PROPOSAL BY MAKING THAT
SITE MAJOR POINT OF ENTRY FOR ALL CRUDE OIL REQUIREMENTS

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OF THE REGION. OIL RECEIVED THERE WOULD BE DELIVERED
TO POINTS OF CONNECTION WITH INTERPROVINCIAL SYSTEM FOR
U.S. MIDWEST AND WITH TRANS MOUNTAIN SYSTEM TO SUPPLY
B.C. AND PUGET SOUND REFINERIES.

6. PROJECT STUDIES:
B.C. GOVERNMENT, TO DATE, HAS MADE NO DEFINITIVE STATEMENT
OF ITS POSITION ON OIL TERMINALS AND PIPELINES, OTHER
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THAN TO REPEAT THE OBVIOUS THAT IT WISHES TO SAFEGUARD
PROVINCE AGAINST OIL SPILLS. SUBJECT IS, HOWEVER,
UNDER INTENSIVE STUDY IN PREPARATION FOR PARTICIPATION
IN UPCOMING NEB HEARINGS ON KITIMAT APPLICATION. VARIOUS
"LEAKS" TO PRESS IN RECENT WEEKS INDICATE THAT THE
GOVERNMENT MAY BE RECEIVING DIVERGENT VIEWS FROM GOVERN-
MENT AGENCIES. FOR EXAMPLE, AN ENVIRONMENT AND LAND
USE SECRETARIAT (AN ADVISORY BODY SET UP BY FORMER
NDP GOVERNMENT) REPORT, CITING ENVIRONMENTAL CONSIDERA-
TIONS, HAS CONCLUDED ON PRELIMINARY BASIS THAT A PORT
ANGELES TANKER PORT SITE WOULD BE A PREFERABLE ALTERNATIVE
TO KITIMAT FROM B.C.'S POINT OF VIEW. ON OTHER HAND,
A B.C. ENERGY COMMISSION REPORT IS SAID TO FAVOR
KITIMAT PROJECT, ON CONDITION THAT KITIMAT WOULD BECOME
THE TRANSSHIPMENT PORT FOR THE BULK OF PUGET SOUND OIL
REQUIREMENTS, THUS KEEPING JUAN DE FUCA TANKER TRAFFIC
TO MARGINAL LEVELS.
7. POSSIBLE "TILT" FAVORING KITIMAT:

PREMIER BENNETT, IN WHAT MAY PROVE TO BE HIS GOVERNMENT'S
ULTIMATE POSITION ON MATTER, STATED ONLY TWO WEEKS AGO
THAT HE "CANNOT SEE A PROVINCIAL BENEFIT" TO THE KITIMAT
PROPOSAL, BUT THAT IT IS POSSIBLE A TRADE-OFF COULD BE
ARRANGED SO THAT USE OF KITIMAT WOULD MEAN LESS TANKER
TRAFFIC TO CHERRRY POINT OR PORT ANGELES. IT IS WIDELY
ASSUMED THAT ANY "TRADE-OFF" WOULD ENTAIL, AT MINIMUM,
MODIFICATION OF KITIMAT PROPOSAL TO PERMIT SOME OIL
SUPPLIES TO FLOW EVENTUALLY TO B. C. REFINERIES INSTEAD
OF EXCLUSIVELY TO THE U.S. MIDWEST. OTHER STATEMENTS
BY OFFICIALS TEND TO LEND CREDENCE TO VIEW THAT GOVERN-
MENT IS TILTING TOWARD KITIMAT, AT LEAST BY DEFAULT.
MR. BENNETT EXPRESSED GREAT DISAPPOINTMENT THAT WASHINGTON
STATE GOVERNOR RAY NOW BELIEVES THAT SUPERTANKERS ARE
ACCEPTABLE IN PUGET SOUND. MINISTER OF ENVIRONMENT
NIELSEN, IN RESPONSE IN LEGISLATIVE ASSEMBLY ON MARCH 1
TO A QUESTION ABOUT TRANS MOUNTAIN PIPELINE COMPANY'S
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ANNOUNCED AGREEMENT WITH ARCO TO BUILD A NEW TERMINAL AT CHERRY POINT AND REVERSE ITS EXISTING PIPELINE, STATED THAT B. C. CONSIDERS CHERRY POINT THE WORST POSSIBLE SITE FOR RECEIVING SUPERTANKERS.

8. THE ENVIRONMENTAL COALITION:

IN MEANTIME, B. C. ENVIRONMENTALISTS ARE URGING THAT B.C. ENERGY COMMISSION HOLD A PUBLIC HEARING ON KITIMAT (BCEC IS NOT SO INCLINED AND DOUBTS WHETHER IT HAS JURISDICTIONAL AUTHORITY IN ANY CASE) AND ARE PREPARING OPPOSING BRIEFS FOR FEDERAL NEB HEARINGS. ENVIRONMENTALISTS HAVE MOBILIZED THE SO-CALLED KITIMAT OIL COALITION, WHICH INCLUDES THE SCIENTIFIC POLLUTION AND ENVIRONMENTAL CONTROL SOCIETY (SPEC), B. C. SIERRA CLUB, B. C. WILDLIFE FEDERATION, GREENPEACE FOUNDATION AND SOME TWELVE OTHER ENVIRONMENTALLY-MINDED GROUPS. THE COALITION IS EMERGING AS A VERY POTENT GROUP AND CAN BE EXPECTED TO BECOME INCREASINGLY VOCIFEROUS AND EFFECTIVE IN OPPOSITION TO KITIMAT AND VIRTUALLY ANY OTHER PROPOSAL TO ESTABLISH AN OIL PORT. LEADER IS GARY GALLON (AN EX-AMERICAN) WHO IS AN ACTIVE MILITANT IN B.C. ENVIRONMENTAL CIRCLES. THE COALITION CAN PROBABLY EXPECT SUBSTANTIAL SUPPORT IN ITS ACTIVITIES FROM SIMILAR-MINDED GROUPS IN WASHINGTON STATE, AS WELL AS FROM IMPORTANT MEDIA. THE VANCOUVER SUN HAS EDITORIALLY TAKEN VIEW THAT VARIOUS OIL PORT AND PIPELINE PROPOSALS ARE ALL DESIGNED TO "SOLVE AN AMERICAN PROBLEM" AND THAT B.C. AND OTTAWA SHOULD TAKE A POSITION AGAINST KITIMAT, AGAINST ANY SUPERTANKER PORT IN THE GEORGIA STRAIT, AND AGAINST SUPERTANKER TRAFFIC IN NEIGHBORING U. S. WATERS WHICH ENDANGER B. C.'S ENVIRONMENT. AS PREVIOUSLY REPORTED, UNITED FISHERMEN

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AND ALLIED WORKERS UNION, JOINED BY GREENPEACE, HAS ANNOUNCED PLANS TO BLOCKADE ANY SUPERTANKERS WHICH MIGHT ENTER B.C. WATERS EN ROUTE TO CHERRY POINT OR KITIMAT.

9. NDP OPPOSITION TO PROJECT:

AT ANOTHER LEVEL OF OPPOSITION, FORMER PREMIER BARRETT HAS REPEATEDLY STATED THAT AN NDP GOVERNMENT WOULD APPROPRIATE 15 PERCENT OF ANNUAL OIL VOLUME FLOWING THROUGH THE KITIMAT PIPELINE AND BUILD A GOVERNMENT REFINERY TO PROCESS IT. FURTHERMORE, HE HAS PUBLICLY STATED THAT HE WOULD PERMIT "EVERY CITY, EVERY VILLAGE AND EVERY UNORGANIZED AREA THAT THE PIPELINE GOES THROUGH TO TAX IT." THE NDP, BARRETT SAYS, STILL FAVORS A RAIL ROUTE FROM ALASKA THROUGH B. C. TO CARRY OIL TO THE U. S.

10. LOCAL KITIMAT OPINION:

INFORMATION ON ATTITUDES IN KITIMAT ITSELF IS SCANTY,
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BUT THERE ARE INDICATIONS THAT WHILE MANY CITIZENS FEEL THERE IS A RISK IN THE TRANSMISSION OF CRUDE OIL ALONG PROPOSED TANKER ROUTE, IT IS A RISK WHICH MUST BE TAKEN. THERE IS NO DOUBT, HOWEVER, BUT THAT PROJECT WOULD PROVIDE A BOOST, EVEN IF RELATIVELY TEMPORARY, FOR AN ECONOMICALLY DEPRESSED AREA OF B. C. WHICH SUFFERS FROM A HIGH LEVEL OF CHRONIC UNEMPLOYMENT. FURTHER INLAND IN PRINCE GEORGE, AN EXISTING REFINERY MIGHT WELL BE PLEASED TO BE ABLE TO MAKE USE OF CRUDE FROM ALASKA. ITS ABILITY TO TAP THAT CRUDE COULD POSSIBLY RESULT IN VERY POSITIVE SUPPORT.

11. EMBASSY COMMENT: EMR MINISTER GILLESPIE HAS INDICATED PRIVATELY THAT IT WILL PROBABLY BE A YEAR FROM NOW BEFORE REVIEW PROCEDURES, INCLUDING MINI-BERGER INQUIRY MENTIONED REFTEL, ARE COMPLETED AND GOC IS IN POSITION TO MAKE DECISION. THERE MAY BE CONSIDERABLE FURTHER DELAY IF, AS MOST OBSERVERS EXPECT, GOC CALLS FEDERAL ELECTION SOMETIME IN MID-1978 SINCE GOC IS

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LIKELY TO BE RELUCTANT TO MAKE CONTROVERSAL DECISION IN
IMMEDIATE PRE-ELECTION PERIOD. ENDERS

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